THE NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE
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Senate Special Committee on Aging
Testimony for the Record
Social Security: Keeping the Promise in the 21st Century
Barbara B. Kennelly, President
National Committee to Preserve Social Security and Medicare
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Mr. Chairman and members of the Committee:

As President of the National Committee to Preserve Social Security and Medicare, I represent over 3 million seniors who understand the importance of Social Security and Medicare, and share a passion to see these critical programs preserved and strengthened not just for themselves, but for future generations. On their behalf, I applaud you for holding this hearing today.

Mr. Chairman, as you know, Social Security and Medicare have had their opponents from the days of their enactment – people who do not believe in government programs and have dedicated their lives to dismantling these highly successful and critical social insurance programs. In recent years in particular, the American people have been assailed with dire messages claiming our nation cannot afford Social Security and Medicare in the future from conservative economists and their supporters. These claims represent part of an orchestrated campaign to press for cuts in benefits.

Social Security, together with Medicare and Medicaid, has been swept-up into the scary sound-bite of an 'entitlement crisis.' The word 'entitlement' itself is a pejorative these days: it reminds us of those seemingly 'entitled' fat cats on Wall Street. It also implies a program that is out-of-control – with spending on automatic pilot until it completely drains our Treasury.

But Social Security is anything but out-of-control. In fact, it is the most fiscally conservative and responsible part of the federal budget. Unlike most of the federal government, Social Security is running a surplus. According to the program's Trustees, Social Security will have enough funds to pay full benefits through 2037 even if no changes are made to the program – and about 76 percent of benefits thereafter. To put this in perspective, the cost of closing this deficit is about the same as making President Bush's tax cuts for the top 1 percent of taxpayers permanent.

Today Social Security costs 4.8 percent of GDP and is expected to rise to a high of 6.2 percent and then drop back down to 5.8 percent by 2050. This is a modest increase, especially when comparing it to the much larger increases in health care costs.

Social Security and Medicare are the only programs in the federal budget that are required to project their finances over 75 years. This period is also considerably longer than any private pension or the public pensions of most other countries. The longer valuation period was intentional. Because Social Security is such a linchpin to retirement, it was understood that any changes would need to be implemented gradually over a period of many years. Instead, this 75-year projection – along with even more speculative projections into the infinite future – have been used by opponents of the program in an opportunistic way to convince younger Americans that the program is broken and won't be there for them, when this could not be further from the truth.

Finally, it is important to understand the myth surrounding the Social Security Trust Funds themselves. The Treasury bonds in the Trust Funds are often described by conservative economists as 'worthless IOUs', implying they are not worth the paper they're printed on. In fact, the bonds in the Trust Funds are no different than the bonds that represent the rest of our federal debt – they are all backed by the full faith and credit of the United States. And U.S. bonds are the safest investment possible in these uncertain economic times. When the stock market goes into a tailspin, where do investors put their money for safety? In U.S. Bonds. In fact, they are so safe compared to the stock market that at one point recently investors were effectively paying the U.S. government to hold their money for them.

At a time like this, when we are looking at the potential of trillions of dollars in borrowing over the next few years, we should be thankful, not dismissive, that some of our debt is held by the United States in trust for its own people. Most of our debt is held by foreign investors, and their interests do not necessarily align with ours. The money invested in Social Security will never move offshore in a chase for profits.

Mr. Chairman, as you know Social Security provides modest benefits – the average benefit is only $13,800 a year – but those benefits are crucial. A full two-thirds of the elderly receive more than one-half of their income from Social Security, and one-in-five have no other income but Social Security. If you don't count Social Security today, almost one-half of those over age 65 would have incomes below the poverty line – just about the same poverty rate as before the enactment of Social Security.

Many people do not realize that in addition to providing a stable, reliable source of retirement income, Social Security is also our nation's largest disability program, and our largest children's program. The disability benefit is often the only disability insurance available to workers, especially those in high-risk occupations who are most likely to need the coverage. Similarly, families with younger children who have competing demands on scarce resources often neglect to purchase sufficient life insurance coverage, leaving surviving spouses and children struggling to replace the primary wage earner's income. Social Security provides life and disability insurance worth over $400,000 each to every eligible worker.

Benefits such as those provided by Social Security cannot be found on the private market. Unlike any other retirement program, Social Security provides a steady stream of income that you cannot outlive, with built-in protection against the ravages of inflation. It provides benefits not just for workers but for their spouses and dependent children, as well as for divorced spouses and their dependent children. A guaranteed benefit that is unaffected by the ups and downs of the stock market is especially important at times like these.

Social Security's benefits are particularly important to women and minorities. Almost one-half of all widowed, divorced and single women age 65 or older receive 90 percent or more of their income from Social Security. Thirty percent of African-American elderly couples and almost 60 percent of unmarried African-American seniors also receive 90 percent or more of their incomes from Social Security. For Hispanics, those percentages are even higher – almost 40 percent of couples and almost two-out-of-three elderly singles with almost total reliance on Social Security.

Social Security is a rock in a chaotic financial world. Social Security checks keep coming every month like clockwork. The Social Security Administration did not miss a step after Hurricanes Katrina and Rita, and the first benefit checks went out to the families of those who perished on 9/11 within 3 weeks of that catastrophe. Through wars, natural disasters, or financial calamity, Social Security checks provide stability and cash to those who have lost everything else.

Some economists have been pushing for cuts in Social Security benefits as a way of addressing our long-term budget deficits. I'm here to tell you that would be an extraordinarily bad idea. Benefits are modest to begin with, and benefits for future retirees are already being reduced as a result of the phase-in of an increase in the retirement age. Although essential to keep the elderly from completely losing ground to inflation, Cost-of-Living Adjustments can't keep up with the dramatic increases in the cost of health care over the long term.

Seniors spend significant portions of their incomes on health care, even with Medicare, and, if current projections hold true, future retirees could see over one-half of their Social Security check absorbed by health care out-of-pocket costs by 2025. Future retirees also face a traditional pension system that has significantly eroded, plummeting housing values, and individual savings that have evaporated. They will also need to stretch their retirement savings over a longer period of time as they will live longer than the generations before them. Our children will clearly need a dependable, solid Social Security benefit just as much as today's retirees.

Mr. Chairman, despite all the popular press, we do not have an entitlement crisis in this country – we have a health care crisis.

Please don't misunderstand me: I recognize that the long-term deficit is real. But it is not caused by Social Security or Medicare. Instead, it is a symptom of a problem that extends far beyond the federal government's outlays and revenues. Unless we address the real issue, any attempt at a solution simply will not work.

The growth in our nation's health care costs, in both the public and private sector, has far outpaced the growth of income in the United States for decades. If the historical rate of growth were to continue unabated into the future, we would end up spending virtually every penny of our GDP on health care in 75 years – something that is clearly not sustainable. In fact, if you look at CBO's projections under this scenario, if every entitlement in the federal budget were repealed outright – eliminating Social Security, Medicare, Medicaid, food stamps and other critical programs – but nothing were done to slow the growth in health care costs overall, we would still find ourselves spending almost 70 percent of GDP on health care by 2082.

If we successfully slow the rate of growth of health care to equal per capita GDP, the root cause of Medicare's long-term funding gap will disappear. If, on the other hand, all we do is cut Medicare, it will do nothing to slow the overall growth in health care costs, and we certainly won't make the costs disappear. They will merely be shifted to seniors, who are least able to bear the additional cost burden, and to the private sector and state budgets. In the end, health care costs will still consume ever-increasing amounts of our GDP, making our businesses less competitive and crowding out other needed spending in the budgets of both individuals and government.

Much of the theory behind the push to cut Social Security and Medicare comes from economists who believe older people should be forced into consuming less by reducing the level of resources available to them in the future. But seniors today have median incomes about one-half the level of their children, even with Social Security. If the percentage of GDP allocated to them does not increase as their percentage of the population grows, each succeeding generation will become increasingly less well off than the generation behind them. America is the most powerful and economically well off country in the world. And yet even at its most expensive, our Social Security system will cost a substantially smaller percentage of our GDP than many other industrialized nations are already spending on their programs for the elderly today.

The bottom line is we can afford Social Security and Medicare in the future, and indeed, we should be focusing on strengthening and expanding these critical programs rather than attempting to cut them. We especially should not be using them as pawns in some grand budget deal that focuses more on the dollars they cost than about the people they protect or as a bargaining chip for other legislation. Every industrialized country has a social insurance system that spreads risk and protects its people, especially its younger generations. We in the United States can afford to do no less.

Thank you for inviting me to submit a statement for your hearing today.